

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman; and
Robert G. Taub

Addition of Gift Cards Price Category to
Greeting Cards and Stationery Product

Docket No. MC2014-26

ORDER GRANTING REQUEST TO ADD GIFT CARDS
TO THE COMPETITIVE PRODUCT LIST

(Issued August 8, 2014)

I. INTRODUCTION

On June 9, 2014, the Postal Service filed a request pursuant to 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 *et seq.*, to add Gift Cards to the competitive product list as a price category in the Greeting Cards and Stationery product and, accordingly, to change the name of that product to Greeting Cards, Gift Cards, and Stationery.¹ The Postal Service has been conducting a market test since June 24, 2011, selling American Express gift cards at about 5,000 post offices throughout the United States and on its website pursuant to Commission authorization.² The market test was set to expire June

¹ Request of the United States Postal Service to Add Gift Cards as a New Price Category in the Greeting Cards and Stationery Product, June 9, 2014 (Request).

² Docket No. MT2011-2, Order Authorizing Gift Card Market Test, April 28, 2011 (Order No. 721). See *also*, Docket No. MT2011-2, Gift Cards Market Test Data Collection Report – FY2011 Quarter 4, October 28, 2011 (Report October 28, 2011).

27, 2013, but subsequent orders granted extension of the gift card market test until June 27, 2014.³ The Postal Service is currently authorized to sell gift cards pursuant to conditional authorization pending conclusion of this proceeding.⁴

Upon review of the Postal Service's Request, and its reports filed pursuant to the Commission's market test authorization, and responses to Chairman's Information Requests,⁵ the Commission concludes the Postal Service's sale of gift cards is a postal service and that the proposed sale meets the provisions of 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 *et seq.*, as well as 39 U.S.C. § 3633 and 39 C.F.R. § 3015.7. The Commission further finds that it is appropriate to add gift cards to the Mail Classification Schedule (MCS) as a price category within the current Greeting Cards and Stationery product.

II. BACKGROUND

The Postal Service market test. On April 28, 2011, the Commission authorized a 24 month market test pursuant to 39 U.S.C. § 3641 for the sale of gift cards in postal facilities. The test commenced on June 24, 2011.

³ Docket No. MT2011-2, Notice and Order Granting Temporary Extension of Gift Card Market Test, June 21, 2013 (Order No. 1755); Docket No. MT2011-2, Order No. 1781, Order Granting Extension of Gift Card Market Test, July 19, 2013.

⁴ Order No. 2091, Notice and Order of Filing Request to Add Gift Cards to the Competitive Product List and Conditionally Authorizing the Sale of Gift Cards Pending Conclusion of Proceeding, June 13, 2014.

⁵ Chairman's Information Request No. 1, June 20, 2014 (CHIR No. 1); Response of United States Postal Service to Chairman's Information Request No. 1, June 27, 2014 (Response to CHIR No. 1); Chairman's Information Request No. 2, August 1, 2014 (CHIR No. 2); Response of United States Postal Service to Chairman's Information Request No. 2, August 6, 2014 (Response to CHIR No. 2).

The Postal Service proposed to sell “open loop” gift cards,⁶ either as standard cards by the supplier(s) or customized, co-branded cards with Postal Service imagery during the market test. Open loop cards were sold in fixed amounts of \$25 and \$50 and in variable amounts with a minimum value of \$25, a maximum value of \$100, and any amount within that range. Activation fees were \$3.95 for a fixed \$25 card, \$4.95 for a fixed \$50 card, and \$5.95 for all other cards. Limits were imposed of \$500 daily maximum purchase per customer and a \$3,000 weekly maximum purchase per customer to protect against fraud and money laundering.⁷

The Postal Service generated revenue by retaining a negotiated percentage of the activation fee for open loop cards, with the remainder of the fee remitted to the issuer of the card. Different fee levels were to be tested to determine the optimal fees.

Initially, gift cards were only to be available at Postal Service retail windows, but not at Automated Postal Centers or on the Postal Service’s website at *www.usps.com*. Gift cards were immediately available for use once activated upon purchase from a Postal Service retail associate. The Postal Service acted only as a sales agent; the card supplier provided all customer support.

The market test was scheduled to commence in 2,000 Postal Service retail locations selling greeting cards. It was to expand to up to 3,000 additional Postal Service locations (including locations without greeting cards) in October 2011. Order No. 721 at 3. During the market test, a no fee promotion was conducted from November 29, 2013 until December 12, 2013. American Express reimbursed the Postal

⁶ Open loop cards are cards branded by a Retail Electronic Payments Network (e.g., American Express, Discover, MasterCard, or Visa) and can be used by the gift card recipient at any merchant that accepts cards administered by that network. Closed loop cards are specific to a particular merchant and only sold at face value. The Postal Service intended to enter into an agreement with one or more issuing banks, Retail Electronic Payments Networks, or service providers. Order No. 721 at 2 n.2.

⁷ The Postal Service asserted its sale of gift cards would comply with the Credit Card Accountability Responsibility and Disclosure Act of 2009, Pub. L. 111-24, 123 Stat. 1734, (Credit CARD Act of 2009). It further stated that any fees that might be charged to gift card recipients, or to merchants who accepted the gift cards, would be set by the card supplier(s) in compliance with applicable laws, including the Credit CARD Act of 2009. The Postal Service said it would not receive any revenue from such fees. Order No. 721 at 2 n.3.

Service for its share of the foregone activation fees. The promotion was intended to attract attention to the availability of gift cards at post offices, and it increased sales so substantially that the Postal Service may consider another such promotion. Response to CHIR No. 1, question 5.

Gift Card sales as a “postal service.” Market tests are limited to postal services. Order No. 721 at 11.⁸ To meet the statutory requirement for a market test, the Postal Service asserted that the sale of gift cards is consistent with the statutory definition of a “postal service” defined as “the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto.” Order No. 721 at 3.

Upon considering the Postal Service’s notice of market test, the Commission tentatively agreed with the Postal Service and found that the Postal Service had “satisfactorily demonstrated, at least preliminarily,” that the experimental sale of the Gift Cards product is a postal service. Order No. 721 at 8. The Commission concluded that subject to the collection of data and periodic reporting required by Order No.721, Gift Cards could reasonably be compared to two postal services, the sale of money orders and greeting cards. Like money orders, gift cards may convey money, either as cash, as payment, or as a gift, and may be redeemed at locations where the card is accepted at other than postal facilities. Like money orders, they are not reloadable. *Id.* at 8. Gift cards may often be transmitted in greeting cards. *Id.* Moreover, the availability of gift cards in postal facilities increases customer convenience, stimulates demand for postal services, and enhances the use of the mail. *Id.* at 9.

In an effort to confirm the Postal Service’s assertions and the Commission’s preliminary finding, Order No. 721 required the Postal Service to gather information on the nature and uses of gift cards purchased to determine whether the sale of gift cards ultimately may be characterized as a postal service. The Postal Service was to report

⁸ If the sale of gift cards is not a postal service, it would be a non-postal service, and the Postal Service is precluded from continuing the sale of gift cards inasmuch as new non-postal services are prohibited by 39 U.S.C. § 404(e)(2).

the type of gift cards sold (open or closed loop); the total and net revenues; volumes, including, separately, volumes sold with greeting cards; attributable costs; and an estimate of the percentage of gift cards mailed (or likely to be mailed). The first report was filed within 30 days of the end of the fourth quarter of FY 2011 and semi-annually thereafter. See Order No. 721 at 15.⁹

The Postal Service complied with Order No. 721 and filed six periodic reports from October 28, 2011 through the period ending March 31, 2014.¹⁰ The first report indicated 72 percent of the transactions for gift cards involved the sale of other postal items. The report also stated that the Postal Service planned to conduct customer surveys asking consumers for their reaction to gift card offerings, and if they expected to mail the gift cards.

The second report noted that in offices selling both gift cards and greeting cards, 14.3 percent of the gift cards were sold with greeting cards. The report also cited initial survey results that 52 percent of gift card purchasers expected to mail them. Customers estimated that 46 percent of gift cards would generate mailed thank you cards. Gift cards are expected to be used for some online purchases, generating about 23 packages for every 100 gift cards purchased, some of which would be sent through the Postal Service. A separate survey found that purchasers of gift cards at postal facilities are more likely to mail their gift cards than if those gift cards were purchased elsewhere. According to the Postal Service, it appeared that product revenue was covering costs. Report April 27, 2012.

⁹ A second condition limited the market test to the sale of gift cards at the Postal Service's retail facilities, including its website. *Id.* at 14.

¹⁰ The following reports were received: Docket No. MT2011-2, Data Collection Report for Gift Cards-FY11, Quarter 4, October 28, 2011 (Report October 28, 2011); Docket No. MT2011-2, Data Collection Report for Gift Cards - FY12, Quarters 1-2, April 27, 2012 (Report April 27, 2012); Docket No. MT2011-2, Data Collection Report for Gift Card Market Test (FY2012, Quarters 3-4), October 31, 2012 (Report October 31, 2012); Docket No. MT2011-2, Data Collection Report for Gift Cards - FY13, Q1-2, May 3, 2013 (Report May 3, 2013); Docket No. MT2011-2, Gift Card Market Test Data Collection Report, October 18, 2013 (Report October 18, 2013); and Docket No. MT2011-2, Gift Cards Data Collection Report - FY 14, Q1-2, May 7, 2014 (Report May 7, 2014).

The third report on October 31, 2012 said open loop cards were being sold at 5,191 retail locations at the end of the 2012 fiscal year. The percentage of gift cards sold with greeting cards increased to 22.5 percent. Other previously reported percentages remained nearly constant. There was some difficulty in measuring the costs of window transactions due to the relatively low number of transactions observed. The Postal Service stated that it could not conclude that the gift cards were covering costs although it appeared likely. The fourth report on May 3, 2013 indicated the percentages reported above remained consistent; although the percentage of gift cards sold with greeting cards fell to 10.5 percent.

The fifth report on October 18, 2013 indicated that the percentages previously reported remained stable. The Postal Service also reported plans to sell closed loop cards at six specific chain stores at face values ranging from \$15 to \$500, earning a percentage on the face value of the closed loop card.¹¹ It was also realigning its sales away from low volume sales locations and reducing the total number of sales locations to 5,000.

The final report filed on May 7, 2014 said that in offices selling both gift cards and greeting cards, 9.61 percent of the gift cards were sold with greeting cards and 63.95 percent of gift card transactions included the sale of other postal products or services. The Postal Service also reported it was unable to agree with partners on the terms of sale for closed loop cards and sold only open loop cards.

Revenue over the five semi-annual reporting periods varied by the time of year. Reports covering the first two quarters of three fiscal years reported net revenue of \$490,126.45 for the first two quarters of FY 2012, \$429,006.90 for the first two quarters of FY 2013, and \$320,280.34 for the first two quarters of FY 2014.¹² Net revenue for

¹¹ The Request reports the Postal Service continues to plan the sale of closed loop cards once a partner is obtained. Request, Attachment B at 3.

¹² The FY 2014 revenue does not include net fee reimbursements to the Postal Service from a two-week promotion where customers were not charged activation fees for gift card purchases. See Report May 7, 2014, at 1.

the last half of the reported fiscal years was \$307,891.76 for FY 2012 and \$206,469.43 for FY2013.

III. POSTAL SERVICE REQUEST

The Postal Service Request seeks to add Gift Cards as a competitive product price category within the current Greeting Cards and Stationery product. Request, Attachment B at 1. Currently, the Postal Service sells only open loop cards. However, assuming approval of its Request, it also plans to sell “closed loop” gift cards.¹³ Since activation fees are not generally levied on closed loop cards, the Postal Service indicates that it may enter into a revenue sharing arrangement with the closed loop card supplier. *Id.*, Response to CHIR No. 1, question 3.

Pursuant to Commission regulations, the Request includes a copy of the Governors’ Decision and Certification (Attachment A), a Statement of Supporting Justification to demonstrate the Request meets the criteria in 39 U.S.C. § 3642 (Attachment B), and proposed MCS language (Attachment C). The Postal Service also filed on June 9, 2014, a notice of filing a non-public library reference with estimated cost coverage calculations in an Excel workbook. The notice included an Application for Non-Public Treatment for the protection of the information as Attachment A to the Notice.¹⁴

The Postal Service plans to sell open loop gift cards not specific to a particular merchant that are branded by a Retail Electronic Payments Network such as American Express, Discover, MasterCard, or Visa. To offer gift cards, the Postal Service will enter into agreements with one or more issuing banks, Retail Electronic Payments Networks, or service providers. The Postal Service will act solely as a sales channel with customer support provided by suppliers. *Id.* at 2. Revenue from open loop gift cards

¹³ Request, Attachment B at 3. Closed loop gift cards are specific to a particular merchant, and are sold at face value, *i.e.*, without an activation fee. *Id.*

¹⁴ Notice of Filing of Nonpublic Library Reference USPS-LR-MC2014-26/NP1, June 9, 2014.

will be generated for the Postal Service from a negotiated percentage of the activation fees. Fees typically are between \$2.95 and \$7.95. *Id.* at 3.

The Postal Service proposes to include in the MCS activation fees for gift cards between \$1.99 and \$8.99. There is no plan to charge the minimum or maximum gift card activation fees. According to the Postal Service, the fee range will provide added pricing flexibility when negotiating with potential partners. Agreements for activation fees have not been completed except for a short term agreement with American Express to continue the market test fees. A wide range of possible fees is selected to accommodate future agreements and to respond to market conditions. Similarly, the Postal Service does not charge the current minimum and maximum fees in the schedule for Greeting Cards and Stationery. Response to CHIR No. 1, question 1.

The Postal Service states that its policy for reimbursement of lost, stolen, or missing gift cards, either in the mail or outside of it, follows the industry standard for third-party companies selling gift cards and private delivery companies shipping packages that include a gift card. Like companies selling gift cards generally, the Postal Service does not reimburse a customer for lost, stolen, or missing gift cards. As stated in the Domestic Mail Manual (DMM) 609.4.3(aa), insurance claims will not be paid on gift cards, but the Postal Service directs its customers to the card issuer. American Express's policy is to replace a card with the remaining balance at the time the loss is reported. There is no fee to replace a lost or stolen card. Response to CHIR No. 2, questions 1, 2.

The Postal Service submits that the gift cards marketplace is highly competitive. Competition from other retailers requires the Postal Service to be mindful of keeping fees low. Charging more than face value for closed loop cards does not appear to be an option. Request, Attachment B at 2-3. Higher fees for open loop cards would likely result in a severe loss of sales and thereby risk losing the revenue from the gift cards as well as the postage revenue from customers mailing gift cards. *Id.* at 3. Any reduction in quality or output would likely result in a loss of business. *Id.*

The Postal Service states that it does not intend to use its Request as a step into offering banking services. Any proposals to do so would be done in a separate filing. *Id.* n.2.

The Postal Service asserts gift cards qualify as a “postal service,” defined in 39 U.S.C. §102(5) as “the delivery of letters, printed matter, and mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto.” The Postal Service states the Commission has recognized that this definition includes the sale of retail products that bear a close nexus to the mails, allows mailers to connect with others on a personal level, and allows mailers to send cash equivalents in the form of money orders. The Postal Service concludes that for the same reasons the sale of gift cards is consistent with the statutory definition. *Id.* at 6-7.

The Postal Service also asserts that the Gift Cards price category meets all of the criteria of 39 U.S.C. § 3642 for adding a new product to the competitive product list. Request at 1 n.1. As required by 39 C.F.R. § 3020.32(c), the Postal Service maintains the Gift Cards price category complies with 39 U.S.C. § 3633. Request, Attachment B at 1-2.

The Postal Service asserts that the Gift Cards service (as part of the Greeting Cards and Stationery product) will cover attributable costs and make a positive contribution to institutional costs, citing the non-public library reference, Estimated Cost Coverage Calculations.¹⁵ Request, Attachment B at 1-2.

The Postal Service claims the market for gift cards is highly competitive and fees must be kept low to compete with other retailers. *Id.* at 2-3. Gift cards are widely available from private firms and surveys of customers using the product found them convenient and would buy them again, although some customers were concerned about longer lines at the post office. *Id.* at 4-5. The Postal Service further contends that the likely impact on small business is minimal because small businesses tend to use the gift cards and, generally, larger retail chains compete in the sale of gift cards. *Id.* at 5.

¹⁵ USPS-LR-MC2014-26/NP1 – Estimated Cost Coverage Calculations, June 9, 2014.

Also, the impact of gift card sales on the market would be considerably smaller than 3 percent of the relevant market. *Id.*

On the basis of the reports filed pursuant to Order No. 721, the Postal Service concludes that there is a nexus between the use of gift cards and the use of the mails for sending gift cards because a majority of gift cards purchased at post offices will be mailed. *Id.* at 6-7.

The Postal Service cites survey data from the market test to support its claim that offering gift cards at post offices will increase use of the mails. In a survey of gift card purchasers, the Postal Service found 52 percent of purchased gift cards were, or were expected to be, mailed, and that 46 percent of purchased gift cards would generate a mailed thank you card. Request, Attachment B at 8. Gift cards used to make online purchases would generate some additional package volumes for the Postal Service. The Postal Service believes that for every 100 gift cards purchased, they can be expected to generate more than 98 pieces of mail. *Id.*

A customer survey showed almost all customers agreed it is convenient to buy gift cards at post offices and would do so again. *Id.* at 4. Ninety percent of surveyed customers agreed the Gift Cards offering made them feel the Postal Service is being customer-oriented and innovative. *Id.* Eighty percent of those surveyed agreed the Post Office was more of a one-stop shop and gift cards are a good value. *Id.* at 4-5.

The Postal Service concludes that since a large portion of gift cards are mailed, their sale can reasonably be classified as an ancillary service, and thus qualifies as a postal service. *Id.* at 6-7.

IV. COMMENTS

Comments were filed July 3, 2014 by the Public Representative.¹⁶ Reply Comments were filed by the Postal Service.¹⁷ The Public Representative concludes that the Postal Service's Request is consistent with 39 U.S.C. § 3642 and complies with the requirements of 39 C.F.R. § 3020.30 *et seq.* PR Comments at 4.

However, the Pubic Representative objects that the Request was untimely and continues a pattern of filings inconsistent with 39 U.S.C. § 3642 and the requirements of 39 C.F.R. § 3020.30 *et seq.*, concerning due process with respect to public notice and comment and Commission review in a reasonable period prior to a Commission decision. *Id.* Two such requests for extraordinary relief involved the Gift Card market test: (1) a motion to extend the first phase of the market test for an additional year until June 27, 2014, filed 9 days before the scheduled 2 year termination date of the Gift Card market test, and (2) the instant Request for an interim order filed 18 days before the market test termination date.

The Public Representative asserts the Commission's conditional approval rewards the Postal Service for its untimely filing in this proceeding and encourages such filings in future proceedings. Moreover, she contends that there is no legal distinction between a product that is "conditionally" approved and one that is approved. She maintains that conditional approval is arguably, *ipso facto*, an approval of the Request on its merits, and that given the ubiquity of gift card outlets customers would not be harmed. *Id.* at 6. The Public Representative asserts that denial of the request for an interim order would have improved the likelihood that future requests by the Postal Service would be timely. *Id.* at 8.

The Postal Service responded that the interim order only preserves the *status quo* pending the outcome of this proceeding and limits the prices of open loop gift cards

¹⁶ Public Representative Comments on the Postal Service's Request to Add Gift Cards to the Competitive Product List, July 3, 2014 (PR Comments).

¹⁷ Reply comments of United States Postal Service (Postal Service Reply Comments), July 17, 2014.

to the market test prices, and does not deny due process on the substantive issues of the Request. Postal Service Reply Comments at 2.

V. COMMISSION ANALYSIS

Four issues are presented by the Request: (1) whether the sale of Gift Cards is a postal service; (2) if so, whether the addition of the new Gift Cards product meets the requirements of 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 *et seq.*, for the addition of a new product to the competitive product list; (3) whether gift cards cover their attributable costs in satisfaction of 39 U.S.C. § 3633 and 39 C.F.R. § 3015.7; and (4) whether Gift Cards should be included within the product list as a price category or a separate product.

Gift Cards are a Postal Service. The Postal Service's periodic reports regarding purchasers' use of gift cards confirm the initial expectations that a significant share of gift cards would be mailed after purchase and that the sale of gift cards in postal facilities would impact favorably customer convenience and use of the mails. In short, a majority of Postal Service gift cards are mailed and their sale fosters the use of the mails.

Significantly, 52 percent of purchased gift cards were, or were expected to be, mailed. Request, Attachment B at 8. Two-thirds of customers surveyed believed it is more convenient to buy gift cards at the post office rather than at another retailer while one-third were more likely to mail a gift card purchased at a post office. Gift cards also service customer needs by offering a convenient opportunity to send cash through the mail. *Id.*

Also significant is the similarity of gift cards to Postal Service money orders, long regarded as a postal service on the basis of a court ruling that they are likely to be mailed.¹⁸

¹⁸ *Associated Third Class Mail Users v. U.S. Postal Service*, 405 F. Supp. 1109, 1115 (D.D.C. 1975).

No comments were filed that oppose a finding that the sale of gift cards in postal facilities is a postal service.

The Commission concludes the sale of gift cards in postal facilities is ancillary to the delivery of letters and mailable packages and is a postal service.

The Gift Cards product meets the requirements of 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 et seq. When the Commission reviews requests to add a new product to the MCS, it must ensure that the product is properly classified as either a market dominant or competitive product. Market dominant products consist of products “in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above cost, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.” 39 U.S.C. § 3642(b)(1). All other products are competitive products. *Id.* Gift cards are widely available from well-known and successful enterprises. Many are larger retail chains, making the gift card marketplace highly competitive. In the competitive gift card market, the Postal Service does not exercise sufficient market power to warrant classifying Gift Cards as market dominant. Thus, Gift Cards are properly classified as a competitive product.

In addition, the Commission must give due regard to three considerations concerning the availability of the product, the views of users of the product, and impact on small businesses. The Postal Service addresses the three considerations in Attachment B to its Request. First, the availability and nature of enterprises in the private sector engaged in the delivery of the product is to be considered. As noted above, gift cards are widely available from numerous types of retail outlets. Second, the views of those who use the product on the appropriateness of the Postal Service’s proposal are to be considered. The Postal Service survey during the market test revealed that offering gift cards makes customers feel the Postal Service is making an effort to be customer oriented and innovative. Request, Attachment B at 4-5. Moreover, the Postal Service is viewed more like a one-stop location for sending gifts. *Id.* Customers also agreed gift cards offer a good value. *Id.* at 5. Finally, the likely

impact of listing the new product in the competitive product list on small business concerns must be considered. Small business concerns are a small part of the overall gift card market and represent only a small portion of competition with such businesses. *Id.* In fact, small business could benefit from the product as offering another option for them to purchase gift cards. *Id.* at 6. The Commission concludes the Postal Service meets the requirements of 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 *et seq.*

Gift cards cover their attributable costs in satisfaction of 39 U.S.C. § 3633 and 39 C.F.R. § 3015.7. Based upon data compiled during the market test for each dollar value type of card (\$25, \$50, and variable) for the period October 2011 through March 2014,¹⁹ the Postal Service asserts that the sale of gift cards alone will recover attributable costs. Request, Attachment B at 1-2. In its supporting non-public workpapers, the Postal Service shows that unit revenues should cover unit attributable costs for the gift cards price category. See USPS-LR-MC2014-26/NP-1. Based on the Commission's review of the supporting non-public workpapers (USPS-LR-MC2014-26/NP-1), the market test data, and the responses to CHIR No. 1 that clarified the workpapers and market test data, the Commission concludes the sale of gift cards satisfies 39 U.S.C § 3633 and 39 C.F.R. § 3015.7.

Gift Cards as a price category under the Greeting Cards and Stationery product. The Postal Service requests that Gift Cards be added to the current Greeting Cards and Stationery competitive product for several reasons. First, it asserts that although not directly involved in the movement of letters, printed matter, or mailable packages, they are ancillary to those activities because gift cards are sold at retail windows. Second, it notes that greeting cards and stationery are frequently purchased in the same transaction. Data collection reports during the market test indicated gift cards and greeting cards were purchased in the same transaction between 9.6 percent and 22.5 percent of the time. Finally, it states that gift cards are not expected to generate

¹⁹ Data for the first quarter of the market test period from June 2011 to September 2011 were archived and not currently available. The Postal Service is to provide that data when available. CHIR No. 1, question 4.

substantial sales, making it more difficult to obtain cost data. Response to CHIR No. 1, question 8.

No comments opposed including Gift Cards within the current Greeting Cards and Stationery product, nor do any comments oppose the proposed activation fee range for the Gift Cards price category.

The Commission will authorize the sale of Gift Cards as a price category in the current Greeting Cards and Stationery competitive product. A critical consideration in reaching this decision, however, is that Gift Cards continue to cover their attributable costs. In conclusion, the Commission finds that the proposed classification changes are consistent with 39 C.F.R. § 3020.30 *et seq.*, and will modify the MCS as shown in Attachments 1 and 2 of this Order, subject to editorial revision.

Miscellaneous matters. The Public Representative takes issue with the timeliness of the Postal Service Request. There is some merit to the Public Representative's point that allowing the test to lapse pending the outcome of this proceeding would not harm customers given the widespread availability of retail facilities selling gift cards. However, a break in the sale of the gift cards at postal facilities might have adversely affected customers' expectations of the continued availability of gift cards at Postal Service facilities and thereby impacted future sales of a nascent service. Nevertheless, the Commission is concerned about filing delays and will continue to look carefully at each instance of untimely filings. The Postal Service should not assume waivers will be granted in all circumstances.

VI. Ordering Paragraphs

It is ordered:

1. The Postal Service Request to change the name of the competitive Greeting Cards and Stationery product to Greeting Cards, Gift Cards, and Stationery is granted.

2. The Postal Service Request to add Gift Cards as a price category in a Greeting Cards, Gift Cards, and Stationery product is granted.
3. The Mail Classification Schedule language attached below the signature line of this Order is approved subject to editorial revisions.
4. The Secretary shall arrange for publication in the Federal Register of the updated product list in Attachments 1 and 2 reflecting the changes made in this Order.

By the Commission.

Ruth Ann Abrams
Acting Secretary

CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified in Appendix A to 39 C.F.R. part 3020, subpart A--Mail Classification Schedule. These changes reflect the Commission's order in Docket No. MC2014-26. The Commission used two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

Part B—Competitive Products

2000

Competitive Product List

DOMESTIC PRODUCTS*

Market Tests*

~~Gift Cards~~

SPECIAL SERVICES*

Greeting Cards, Gift Cards, and Stationery

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

Part B—Competitive Products

2000 Competitive Product List

DOMESTIC PRODUCTS*

Market Tests*

~~Gift Cards~~

SPECIAL SERVICES*

Greeting Cards, Gift Cards, and Stationery

2100 Domestic Products

2130 Market Tests

~~2130.1 Gift Cards~~*Reference*~~Docket No. MT2011—2~~~~PRC Order No. 721~~*Expires*~~June 27, 2014~~

2600 Special Services

2610 Greeting Cards, Gift Cards, and Stationery**2610.1 Description**

The Greeting Cards, Gift Cards, and Stationery product is offered only through postal retail locations and online postal stores and includes items designed to be used for, or included in, to mail personal messages sent by mail.

Greeting cards

Greeting cards include cards with envelopes and may be sold individually or as sets.

Gift Cards

Gift Cards include cards with stored value that can be used for the purchase of goods and services.

Stationery

Stationery includes paper, envelopes, postcards, note cards, and note pads and are sometimes packaged as sets.

2610.2 Prices¹

	(\$)
Greeting Cards	0.99 to 25.00
<u>Gift Cards</u>	
<u>Open Loop</u>	<u>Face Value</u> <u>plus</u> <u>1.99 to 8.99</u>
<u>Closed Loop</u>	<u>Face Value</u>
Stationery	0.10 to 75.99

Notes

1. Minimum price applies to average price paid per item when multiple items are purchased together.